Compliments of the First National Bank in Minneapolis, Minn.
Correspondent of The National City Bank of New York

1812 THE NATIONAL CITY BANK OF NEW YORK 1922

Economic Conditions
Governmental Finance
United States Securities

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General Business Conditions

THE menace of the strikes has been removed for the present, and the business outlook is materially improved, of course, by the assurance that it will not be without two such vital requisites as coal and transportation. The general volume of business was not very greatly diminished by the strikes, for coal reserves were not in many instances exhausted and the record of freight handled by the railroads since the 1st of July shows little indication of any disturbance. The coal situation, however, was becoming very serious, and in some localities much inconvenience and heavy losses were resulting from inability of the roads to move perishable crops. The losses to California fruit growers are estimated at $25,000,000.

The weekly car loadings of freight since July 1, when the shopmen's strike began, to September 16, and for the corresponding weeks of the last two years, were as follows:

Week Ended	1922	1921	1920
Sept. 16	945,919	852,552	991,166
Sept. 9	832,744	749,552	883,415
Sept. 2	931,598	831,288	961,633
Aug. 26	890,838	828,883	1,001,308
Aug. 19	859,219	818,147	971,103
Aug. 12	852,580	808,269	971,269
Aug. 5	851,351	786,178	935,730
July 29	859,733	795,432	936,366
July 22	861,124	788,034	928,418
July 15	860,907	774,884	942,851
July 8	718,319	640,535	796,191
July 1	876,896	776,079	891,621
June 24	877,856	775,447	911,503

These figures are enough to demonstrate that trade has been much more active this Summer than last, for the gains shown have been made despite the falling off in loadings of coal. The figures for merchandise freight in the last week for which figures are given are especially notable, running 14,000 cars ahead of the corresponding week in 1920.

At this time embargoes are in force favoring coal and perishable products, and it is evident that the effects of the strikes will be felt throughout the Fall. The railroads will be called upon to handle the supplies of coal that should have been moved during the Summer, at a time when the crop movement and merchandise traffic are always heaviest. They are now using all their equipment that is in condition for use. They have ordered liberally of new cars and locomotives during the present year, but these are in course of delivery and during the last ten years orders have been comparatively light. In the seven years ending with 1907 the average number of freight cars ordered per year was over 200,000; in the seven years ended with 1914, the average was about 140,000, and for the seven years ended with 1921 the average was only about 114,000 cars per year. In 1919 and 1921 the number ordered was only about 65,000 each. To date in 1922 about 100,000 have been ordered. Many of the railroad companies have not for a long time been in financial condition to buy equipment freely, and it was to improve their financial position and credit, and prepare for such an emergency as now threatens that the Cummins-Esch act was passed.

It is pertinent to add here that the roads are not making a good showing of earnings under the freight rate reductions that went into effect July 1st. Notwithstanding the increase of traffic, both gross and net earnings with many of the roads are showing a declining tendency as compared with last year. The turn in the labor situation probably has put an end to further wage-reductions for the present, and all expenses are increasing.

Industrial Conditions

The iron and steel industry was operating at about 75 per cent of capacity before it began to curtail for want of coal. It slowed down to about 50 per cent, and has recovered nearly to where it was. Prices were affected sharply by the curtailment, particularly in the case of pig iron, for which premiums for prompt delivery have been paid running the price above $34 per ton, against $18.25 last January and $25 July 1st. But for importations of British iron the situation would be much worse. The Iron Age figures the average of eight leading steel products at $52.55 per ton, against an average of $42.12 at the low point last February. Rails have been ad-

vanced from $40 to $43, and buying is heavy. The advance of 20 per cent in wages to common labor which went into effect September 1st is a factor in the higher prices, and as there is still a scarcity of labor other advances are predicted. The outlook for the industry is considered good, not only for this year but next. The railroads must buy largely, the structural demand is expected to continue good, and consumption for automobiles, agricultural implements and general uses, including exports, is counted upon to continue at least as good as at present.

Notwithstanding the great expansion of capacity during and following the war, and the recent consolidations, which are supposed to put restraint upon rival activities, enlargements are being planned. The Briar Hill Steel Company, of Youngstown, is contemplating expenditures aggregating $10,000,000. The Carnegie Steel Company has begun the construction of a by-product coke plant to cost $35,000,000.

The Consolidated Steel Company, which was organized as an export corporation by several of the companies which are involved in the recent consolidations, will be dissolved, owing to the changed relationships among the members, but a similar organization may be formed for the same purpose.

Clothes and Shoes

The textile industries are increasingly active, stimulated by rising prices for raw materials, but the situation which has existed all the year, of prices for goods below the parity with raw materials, is still presented. The mills have been making up raw cotton, raw wool and raw silk from earlier purchases, and sellings goods below the replacement costs of the materials. In numerous instances, if mills could have remained idle since last January without detriment to their position in the trade, they would have been able to make more money on their stocks of raw materials than they have realized by making them into goods. The distributing trade has resolutely fought advances and been able to supply its wants by hand-to-mouth purchases. Prices are creeping upward, and stocks are light, but even yet, on cotton goods, operators complain that they cannot sell goods on a replacement basis.

The volume of trade is growing and there are hopes of more satisfactory conditions, but merchants hesitate to buy except for immediate trade.

The cotton and woolen mills in New England that attempted to put in force wage reductions have rescinded their action and are gathering their forces back as fast as they can, in view of the reviving demand for goods and the general upward wage movement over the country.

The consumption of cotton in domestic mills in August was 527,406 bales, against 467,059 bales in August last year. The passage of the tariff bill with duties upon wool about the same as those of the famous Aldrich-Payne act has assured the position of that industry until another tariff revision looms up.

Raw silk has been advancing, and the syndicate holdings in Japan which have been carried since the collapse of prices in 1920 have finally been closed out. Recent monthly importations have been even above the record of 1920, and the industry is active.

The shoe industry is another in which manufacturers complain that the prices of product do not keep pace with the rise of raw materials. Hides have advanced, leather in less degree, and shoes in still smaller percentage.

Building Operations

Building operations have been a large factor in the revival of business this year, as building expenditures enter into a great variety of industries and extend over the entire country. The West Coast Lumbermen's Association, which covers the western part of the states of Oregon and Washington, reports a production from January 1 to September 6 of 2,833,057,638 board feet, as compared with 1,633,051,237 in the corresponding period last year.

The F. W. Dodge Company, reporting building contracts in the 27 northeastern states for the first eight months of this year, says that the aggregate, $2,362,872,000, is not only the largest amount for the first eight months of any year on record, but is greater by $7,000,000 than the total for the entire year 1921. The outstanding feature of the Dodge report for the month of August is the increase in industrial plant construction, which amounted to 21 per cent of the month's total, which is a higher percentage for this era of construction than in any month since 1920.

Residential building still maintains the lead in August, with $100,882,000 worth of contracts, or 31 per cent of the total. Public works and utilities amounted to $49,825,000, or 15 per cent; business buildings, $38,122,000, or 12 per cent; and educational buildings, $32,055,000, or 10 per cent.

Construction started in the Central West (Illinois, Indiana, Iowa, Wisconsin, Michigan, Missouri and portions of eastern Kansas and Nebraska) during the first eight months of this year has amounted to $680,050,000, an increase of $36,000,000 over the total for the entire year 1921.

The great amount of house-building has stimulated the house-furnishing trades. Fur-

niture, carpets, stoves, etc., are moving well. Prices are stronger in carpets and rugs.

The complaint from many industries of a shortage of labor, confirmed as it is by wage increases, shows that employment is now practically full, and that the earnings of labor in the town industries are such as to support a good volume of trade.

The Situation in Agriculture

The situation of the agricultural population is not so good. The crop yields generally are better than good, but prices are low as compared with the prices of other products. The United States and Canada together have raised about 100,000,000 bushels more of wheat than last year, but the wheat crop of Europe is more than that quantity short of last year's yield. The final figures on the last Argentine wheat crop are 180,640,000 bushels, which is somewhat higher than previous estimates, but even so the carry-over of wheat in the world was less than for a number of years.

India, however, which had no wheat for export from last year's crop, probably will have some to spare this year. If Argentina and Australia do as well as last year, there will be enough wheat to go around, but not much over. With all conditions normal, wheat would bring a better price than is now ruling, but the market drags for want of a speculative interest. The Canadian crop, is a bumper, and is being marketed rapidly—more rapidly than the crop on this side of the line—and the hedge-selling by dealers must be taken by speculators who have faith that wheat will be worth more money later. This is the office and service of the speculator—to carry the commodity until it is wanted for consumption. This speculative demand, added to the buying for milling and export, has not been strong enough to sustain the price at a figure satisfactory to the producers. It has fluctuated at a little above $1.00 per bushel in Chicago, with occasional dips under that figure, bringing from 75 cents to 90 cents per bushel at country stations. These are the lowest prices for wheat since before the war. A recovery of 6 or 8 cents was made in the last week of September over the new war scare. When Russia was an exporter of wheat a threat to close the Dardanelles was a legitimate bull argument, but is not of much significance now.

The violent fluctuations in the European exchanges, and the general uncertainty that attaches to European affairs, are influences for low prices. The foreign buyers avoid long commitments, and the speculative element in this country does not have confidence enough in the European demands to carry wheat on the strength of it.

The Foreign Demand

The German Prime Minister has stated, repeatedly, as a reason for discontinuing the reparation payments, that Germany must import large amounts of food-stuffs to supplement its own crops and must conserve its resources to pay for them, It will doubtless be able to find funds for this purpose, but, naturally, it will keep imports down to the lowest possible limit, and this is true of the other European countries as well. Although the demand for foodstuffs is the most stable of all demands, the experience of recent years has shown that human consumption is by no means undeviating. The United States Department of Agriculture estimates that the per capita consumption of meat in Germany has declined from 108.59 pounds in 1913 to 73.65 pounds in 1921.

We gave last month a statement of agricultural exports for the year ended June 30, 1922, which for some products made a good showing as compared with pre-war years, but current exports for the calendar year are not doing so well. For all grains during August they aggregated $67,000,000 compared with $115,000,000 in August a year ago. For the eight months ended with August they amounted to $341,000,000 against $575,000,000 during the corresponding months a year ago.

Meat exports for the month aggregated $11,000,000 against $17,000,000 in August, 1921, while for the eight months period the total was $89,000,000 compared with $118,000,000 during the first eight months of last year.

Exports of cotton in August were 273,308 bales as against 495,130 bales in August last year, but for the eight months of this year ending with August, the aggregate was 3,481,569 bales, against 3,789,236 in the corresponding months of last year. Cotton was below the pre-war average last year.

Corn and Live Stock

The corn crop has been hurt in many states by drought, and is estimated at about 2,800,000,000 bushels. The price has stiffened a little, in consequence and is about 10 cents per bushel better than last year. The yield of oats is large, and with a large carry-over the price is so low in many districts that the grain cannot be moved, and will have to be fed on the farms. Dairy products and eggs have gained in price in the last month, and are about on a parity with last year's prices. The dairy industry is being stimulated in the Northwest by the low prices of grain and high freight rates.

Hogs are the main stay of the Middle-Western farmer, and after losing ground for a few weeks they have rallied to around $10 per hundred weight in the Western markets. This affords a very satisfactory price for corn. The Summer run of cattle on grass in the

Southwest has had disappointing results and the cattlemen in that quarter are not feeling well. Stockers and feeders, however, are going from the central markets to the farmers in large numbers, which promises well for the future supply of beef. Well-finished beeves are bringing good prices. Sheep have had a big advance over a year ago, partly on account of the rise in wool and also for mutton. Lambs have made money for feeders and are bringing good money now.

Short Cotton Crop

The cotton crop has deteriorated through August and September. The government estimate on September 1st was for 10,575,000 bales, not including linters, which bring the total to about 11,000,000 bales. With the September losses, the final yield may not be over 10,500,000. Domestic consumption may be estimated at 6,500,000 bales; exports last year were 6,122,000 bales and foreign stocks were lower at the end of this year than at the beginning. Domestic stocks at the beginning of this crop year were a little under 3,000,000 bales. These figures indicate a scarcity of cotton before another crop is made, if the world's consumption is as large as it has been in the last year. If industrial recovery continues world needs should be larger, for the cotton trade of the world in 1921 was about one-third less than in 1913.

The outlook is not encouraging for consumers, but quite good for the cotton-growing states. The price at this time is about 20 cents per pound, at which price a crop of 10,000,000 bales, will bring about $1,000,000,000, which is well above the average value of the cotton crop in past years. The year-book of the Department of Agriculture for 1915, gives the average value of the cotton crop per acre, for the five year period, 1910-14 as $19.46, and the average acreage for those years was 35,330,000, which would give an average value for the cotton crop of $687,521,000. The acreage planted this year is given by the government at 34,852,000.

Trade Conditions

Looking at trade conditions, it appears that the weak feature of the situation is the low purchasing power of a great portion of the farming population. The Southern States are better off than the grain-producing states, for their income from cotton will be fairly well up to the level of the things they have to buy, and they have probably produced at home a larger share of their food and feed stuffs than they did in former years.

On the basis of the August price tables of the Labor Bureau, the Department of Agriculture has calculated that cotton, potatoes and wool were at that time the only farm products having a higher purchasing value over the combined list of commodities than in 1913, and that a composite unit of the principal farm products has a purchasing value in the combined list of all commodities of 64 as compared with 100 in 1913.

The Bulletin issued by the Bureau of Agricultural Economies, Department of Agriculture, Washington, D. C., for October, sums up the situation as follows:

The farmer is about in the position of a six-foot man who has been standing in five feet of water and now sees it beginning to rain. When deflation overtook the country in 1920, agriculture fell first, hardest, and farthest. It seemed to recover a little last Spring as prices of cotton, hogs, and wool improved. But now the disparity is again so widening between prices of farm products and industrial products that it is becoming something for the community to take account of.

This is the third successive year of big crops. That is the farmer's way of trying to pull himself out of a hole of debt. He does not strike. His stake in the country outweighs his grievances. He works.

For all his hard work however, the farmer's world stays out of joint. His purchasing power has lately dropped to just about its lowest point since the war—the quantity of farm products that would buy $100 worth of other things in 1913 will now buy $64 worth. Industrial labor demands, and stops at nothing to maintain, war-time wages. Freight rates are high. Taxes are a burden. The weakness of the European market is a drag on his wheat, cotton and pork.

It is not alone that farm products stay low, but that manufactured goods have again started upward. Urban industry has during the Summer pushed up its wages and prices so far out of line that the community is enjoying its abundance once more very largely at the farmer's expense.

All the evidence indicates that in trying to catch up with its deflation losses, agriculture has maintained its pace these three years only at the expense of its living standards and of its productive plant—buildings, fences, drains, soil fertility. Farmers are looking out now from their harvest fields and wondering when "readjustment" is likely to become something more than a figure of speech.

The Northwestern National Bank Review, of Minneapolis, gives a quotation from a letter from a bank in southwestern North Dakota, which tells how some of the farmers get along despite low prices. It signifies something, too, as to the service of modern machinery, and of what a Russian farmer can do in the United States:

Rye this morning is 47 cents and wheat 90 cents, but the crops of this country have largely been put in by the homesteaders with the assistance of their families and good machinery, assisted here and there by an occasional hired man for a short space of time. This means where a family has been able to carry the expense of farm life by the proceeds of cream checks or poultry or livestock, that the proceeds of the grain crop will go in to help pay indebtedness, excessive taxation and things like that. We have one customer who, singlehanded, with very little hired help, has put in 400 acres of crop and has practically harvested it alone. Moonlight nights he would work all night shocking his grain after cutting it. This man is a Russian, unmarried. Another instance of an American, who has a wife and two boys, one possibly 14 or 15 years of age and the other a couple of years younger; this man with the help of his family has cared for 800 sheep and a lamb crop of about 700 head, put in 500 acres of crop, and has harvested it without outside hired help. He was unable even to hire a sheepherder to help him out.

Notwithstanding the low prices of some of the leading farm staples, the reports from all sections are that conditions are better than a year ago. They are better everywhere with respect to credit conditions, although there remains a great body of indebtedness brought over from 1920, much of which will have to go over to future years. The South will make progress from this crop, and the sections which do diversified farming will make progress, but conditions are far from satisfactory to the grain-selling districts.

The Shortage of Unskilled Labor

The outstanding feature in the situation is the fact that the surplus labor-supply, which no longer ago than last January was the subject of a national conference at Washington, has been absorbed, and that the country faces a serious labor shortage.

The actions of the steel companies in advancing common labor 20 per cent was a surprise to the country, which had not realized the change that had taken place, but observers in the labor field were not surprised. Service Letter No. 123 of the National Industrial Conference Board, dated July 3, 1922, had the following upon the subject:

> A recent study by the Board's staff shows that employers in various localities are meeting increasing difficulties in obtaining an adequate supply of certain kinds of labor. This shortage relates chiefly to skilled and semi-skilled workers, but in some industries it is extending to common labor.
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> In March, reports of labor shortages began to come from the lumber region of Washington, then from Detroit, where difficulties were met in securing skilled operatives. In the middle of April reports of shortage came from the Calumet region in Indiana where a lack of steel, metal and factory operatives, due to the return of foreigners to their home lands, was noted. At the beginning of May, Milwaukee, Cleveland, Akron and Flint began to report difficulties in securing adequate labor, at first in factories, later in building construction and other outdoor occupations. No marked trouble in securing help was reported in New England until June. In the Middle Atlantic States shortages of unskilled labor and farm help began to appear in April and have increased since. In general, reports of labor shortages center in Colorado and Arizona mining regions and the Oklahoma oil regions of McLain County and Creek County; in the Great Lakes States of Wisconsin, Michigan, Illinois, Indiana, Ohio and Western Pennsylvania; in the Coast States of New Jersey, Connecticut, Massachusetts, and to some extent in North Carolina. At the beginning of the month about one hundred and eighty reports on labor shortage were noted, in almost all sections of the country.
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> Little is being done in a constructive way to meet this situation. In the building trades apprenticeship plans are being worked out, and in a few factories special training policies are being installed. On the whole the expedient of increasing wages to draw out necessary labor is being used. Such increases, while they give an employer a temporary advantage, force similar increases in other plants, and lead to a steady pyramiding of wages and a repetition of the vicious circle experienced during the war period. The labor shortage, therefore, threatens to develop into a national problem of considerable importance.
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> Under the present immigration restrictions, which have been extended for one year, the gain in population through immigration has been reduced to about one-tenth of the average pre-war rate. During the first year of operation of the Act the net increase in population due to immigration was only about 75,000, of which fully one half were women and children, as contrasted with an average net gain of between 700,000 and 800,000 annually in years preceding the war.

The Immigration Act

It seems to be clear that the new legislation upon immigration has affected a radical change in the labor situation, and presents a problem to the solution of which very little thought has been given. This country has grown steadily and rapidly in population by birth and immigration, but it has depended mainly upon immigration for its supply of common labor. Comparatively few of the children born in this country, and who come up through our public schools, expect to work at common labor with their hands. Even the children of immigrants, who grow up within this country, expect to do something else than common, unskilled labor. It always has been so, from the days when that kind of labor was done mainly by Irish immigrants down to recent years, when it has been done mainly by immigrants from the South of Europe. The proportion of unskilled labor is probably less now than in former years, owing to the increase of machine-operations, but a large proportion of the labor used in the major industries is still of that class and the industries cannot expand without it.

Income and Outgo Last Year

In the fiscal year ended June 30, 1922, the first full year in which the quota limit was in force, the total number of alien immigrants admitted to this country, was 309,556, including men, women and children, and the number of alien emigrants was 198,712. Turning to the classification, however, we find that the number of immigrants classified as "laborers" was 32,724, while the number of emigrants so classified was 100,058; in other words, we lost 67,334 more than we gained. The number of Poles entering was 6,357 and the number of Poles leaving was 31,004, the number of Italians entering was 41,154 and the number of Italians leaving was 54,010; the number of Lithuanians entering was 1,602, while the number leaving was 4,606; the number of Greeks entering was 3,821, while the number leaving was 7,649, and so on. These departing laborers are of the very class working in the steel, mining and like industries. No doubt the lax conditions in industry encouraged their emigration, but the barrier that has been raised to immigration plainly makes the labor situation more inelastic than it has been in the past.

It must be remembered that during all the years since 1914 we have been falling behind the former net increase of laborers. The labor army is a constantly changing one; thousands

are passing out of it by death or advancing age every year, and a large force of recruits is required to even maintain the numbers.

Outlook for the Future

What of the future? Frederic C. Howe, for some years Commissioner of Immigration at the Port of New York, discusses the subject at length in the September *Scribner,* predicting that the policy of exclusion is permanent, and that in the future the return of immigrants to their former homes may exceed the newcomers. He says:

> In a few years' time we will be faced by a shortage of servants. It is only the recent immigrant and the negro that will accept menial work. The average working period of a servant is not to exceed seven years. Old age, marriage, industrial occupations, many causes call the servant from the kitchen, as they did during the war. Wages rose rapidly. They have continued high. This contributes to the exodus from the kitchen. It makes the servant less of a servant. It frees him from fear of loss of a job. Within a relatively short time there may be a famine of servants in America, a famine that cannot be corrected by opening our gates to women alone. For the women will not come if their men folks are to be left at home.
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> Let us project our minds ten years into the future, a ten years in which there has been no immigration, in which many immigrants who stand well up in the economic scale have gone back home, a ten years which, added to the eight years since the outbreak of the war closed our gates to immigration, makes eighteen years in the age of a man. By 1932 many of those now working in the iron and steel mills, in the mines and on the railroads, in the building of roads and the work on the farm, will have grown old. They can no longer do hard, manual work. In the factories girls whose parents were of foreign birth have married or been worn out. The shop girl has not been recruited from the better-to-do immigrants. There will certainly be a loss of 3,000,000 workers, and possibly many millions more. Where are they to come from? During these years the oncoming generation will be crowding into the more spectacular professions. They will be rising in the social scale. There will be a great increase in the number of non-producers; a growing unrest among those who have been educated at the public schools and in the colleges.

Effect Upon the Farming Population

The first effects of the immigration law are to be seen now in the wage-advances that are being granted, and that are tending to throw the industrial situation, as between the town industries and agriculture, still farther out of balance. The tendency will be, as already demonstrated, to lower the relative position of agriculture, affecting the net earnings of farming operations and ultimately farm values.

Already it appears that hopes of further reductions in railroad operating costs and of freight charges must be abandoned, and that possibly the reductions already made have been too sweeping to allow the net earnings contemplated by law.

If labor becomes scarce and high-priced, the migration from the farms to the cities will increase until the equilibrium between earnings on the land and in the factories is restored, but that means the pressure of hard times upon the farming population, and will it submit to that pressure, for the sake of the policy of exclusion? It is up to the farmers to determine whether or not this policy shall be maintained, for no other class but the farmers can meet the influence of organized labor in Congress, and no other class has a greater interest in the subject.

Profits of Industry

It may be thought that the rise of wages will be only to the disadvantage of the employing class, but if wages are paid at all it will be because there are profits to be made by doing so. Prices to consumers will have to be high enough to pay all the factors in production or production will fall off. Moreover, if wages per unit of product are to be higher in the future, all existing productive property which cannot be duplicated except at higher cost will be worth more than before, and that increase will accrue to the owners, in other words, the capitalists. If the population is to increase at all, or if the population is to enjoy a larger per capita supply of the good things that higher incomes are supposed to bring, there will have to be increased production by some means, and it will have to be either by harder work on the part of the whole population or by a greater use of capital in the form of machinery.

Foreign Competition

A curtailment of this supply of common labor will raise the general level of industrial costs, at the expense of all consumers, including the laborers themselves, and at the expense of American industries in the competitive markets of the world. It will restrict the growth of our industries by reason of our inability to compete. The workers whom we refuse to admit will be producers and competitors in other countries, and will not only beat us out in all open fields, but beat us out at home, unless we raise protective duties high enough to keep their products out. It means a policy of isolation.

The only way this result can be averted will be for a due proportion of our young men and women who now aspire to office positions to turn to manual labor, and be content with manual labor pay, whatever it may be. It is certain that if industrial costs are high we will pay them ourselves, for none of the products will be sold abroad.

The logic of the policy of excluding foreign labor is that persons who have superior qualifications to serve in executive capacities or at skilled or professional work, shall not have opportunities to do so, but shall be compelled to work at manual labor. This is not putting the available population to the most effective use,

nor even giving the best possible chance to manual workers themselves, for they are benefited as much as anybody by securing the highest productivity for the industrial organization.

Money and Banking

The money market has become firmer, under the increasing seasonal demands, and affected to some extent by transportation troubles, which keep commodities longer in transit and delay settlements. The trend of funds in the last month has been away from New York, and the call money market has been stiffened by this influence. Rising prices and industrial costs make it necessary to use more money in circulation, and more credit in handling the business. Up to this time, however, very slight changes in the volume of either have been shown. The liquidation of frozen loans, dating back to the boom period, has largely offset the demands for fresh credit. The low point for Federal Reserve notes this year was on June 14, when the amount in actual circulation was $2,122,610,000; on September 27 it was $2,243,384,000. The weekly reports of about 800 leading member banks to the Federal Reserve Board give the best available figures for current banking conditions. The business of the 800 banks makes nearly one-half the business of all the banks and trust companies doing commercial business. Their total loans, including rediscounts, were at the low point since 1920 on July 26, 1922, when they were $10,739,146,000. For the last statement in August they were $10,761,195,000, and on September 20 they were $10,939,233,000.

Commercial Loans

If we exclude all loans upon collateral security, and take only the "other loans" reported by these member banks, we will have the best available approximation to purely commercial loans. These reached their low point on July 5, when they aggregated $7,001,732,000. On August 30 they had only increased to $7,019,852,000, and on September 20 had reached $7,117,434,000. As we are at the opening of the Fall season these increases are not large.

The low point for discounted bills held by the twelve Federal Reserve banks, was touched on July 26, when the aggregate was $380,486,000. For the last statement in August they were $404,368,000, and on September 27 the total was $420,280,000, which shows but slight resort on the part of members to these institutions. From July 26 to September 27 the Boston, Philadelphia, Cleveland, Minneapolis, Dallas and San Francisco banks showed slight decreases, while the others showed small increases.

Interest Rates

Time money in this market during the past month has moved up from a 1/4 to 1/2 per cent, and is now quoted at 4 1/2 to 5 per cent. Commercial paper 4 1/4 to 4 1/2 per cent. The call money market has ranged from 3 1/2 to 6 per cent, with 5 as the highest renewal rate. Renewals September 29, 4 3/4 per cent. Acceptances 3 3/8 per cent, which is an advance of 3/8 within the month.

Condition of National Banks

The abstract of the statements of national banks for June 30, 1922, as announced by the Comptroller of the Currency, shows that the aggregate deposits of national banks on that date were $13,366,000,000, an increase over deposits on June 30, 1921, of $1,178,000,000, while aggregate loans and discounts on the former date were $11,248,000,000, showing a reduction of $756,000,000 in the year. This unusual relationship between loans and deposits is accounted for in part by the net gold imports into the country, which for the same period amounted to $440,964,991, and by the shift of bank funds from loans to investments. Holdings of government obligations of all kinds increased during the year in the sum of $265,962,000 and holdings of other securities in the sum of $272,262,000, or in aggregate $538,224,000.

The combined sum of bills payable and rediscounts of national banks on June 30 last was $508,000,000, which showed a reduction of $963,000,000 from the same date in 1921.

The outstanding capital stock of national banks increased $33,000,000 in the fiscal year, and surplus and undivided profits increased $19,000,000.

Liquidation in Two Years

The high point for the loans and investments of all banks was passed in the Fall of 1920. Eight hundred and twenty-two member banks reporting on October 15, 1920, showed loans and investments aggregating $17,283,996,000. The low point since then was on March 8, 1922, when for 805 banks the total was $14,526,585,000, a reduction of $2,757,411,000. Of this reduction, $2,142,733,000 went to retire rediscounts or advances at the Federal Reserve banks. Since then a further reduction at the Reserve banks has been made, but on September 27 the loans and investments of 790 reporting banks stood at $15,439,541,000.

On June 29, 1921, the total of loans and investments reported by 817 banks was $15,332,667,000, but from that date to September 20, 1922, investments increased $1,052,872,000, and loans diminished by nearly as much. Of the increase in securities $890,323,000 was in United States government obligations, and $162,549,000 was in other securities.

A Diversion of Banking Funds

On the strength of the above showing of securities acquired in the past year by 790 member banks, it may be calculated that perhaps $1,500,000,000 of securities have been acquired by all banks in the past year. The reporting banks, being located in the larger cities, no doubt have bought more bonds proportionately than the banks of the country districts. The statement for all national banks bears out this conclusion.

This absorption of securities by banks is one of the results of the reduction of the reserve requirements under the Federal Reserve act and amendments, setting free a large amount of bank credit, and to the greater security felt by bankers under the reserve system.

The demand for loans in the regular course of the banking business having fallen off, the bankers after paying off their obligations at the reserve banks have proceeded to employ their funds largely in investment securities. This is true of banks and trust companies operating under state charters as well as of national banks, and it is clear that but for this policy a much greater break in bank rates would have occurred.

On the other hand it is equally true that but for this diversion of bank credit to the investment market there would have been no such absorption of investment securities as has occurred and no such rise of market prices and decline of interest rates in that field. The effect has been to bring interest rates in the two fields closer together than would have been the case but for this utilization of bank credit.

The Question of Liquidity

On general principles it is not considered sound policy to invest deposits that are payable on demand in long term securities, but it appears that the larger portion of these purchases consist of government obligations, some of which are of short maturities, and all of which are eligible at the Federal Reserve banks as the basis of discounts and currency issues.

Moreover, if this surplus supply of credit had not gone into bonds in this manner, it might have gone into something much more unliquid. As between local, individual, loans of an investment or speculative character, and bonds issued by national, state or municipal authorities, or bonds issued by railroad, public utility, or well known industrial corporations with records of ample earnings, the argument is all for the latter.

Bond Issues a Factor in Bank Liquidation

A good share of the liquidation of bank indebtedness in the last two years has been accomplished by means of bond issues. The issues of the Federal Land Banks since January, 1922, have aggregated about $228,000,000 and of the Joint Stock Land Banks about $62,200,000. These two types of land banks are making loans to the farmers at the rate of about $1,000,000 per day, and thus far most of it has gone to clean up existing indebtedness. The corporations that came out of the boom period heavily indebted to banks, and that have had the credit to support bond issues, have resorted to the same method of cleaning up. Even though the banks themselves have taken these securities in quantities, they have the indebtedness in better shape than it was before. They can pass it over to investors through the medium of the market.

The total of public flotations, including foreign borrowings, but excluding refunding issues, for the first seven months of 1922, as reported by the *Commercial and Financial Chronicle,* was $2,909,178,426.

Position of the Bond Market

The shift of funds from commercial uses to investment purposes during the last year has been an important factor in the rise of the bond market, or to put it differently, in the decline of the interest return upon securities. What that decline amounts to is indicated by such refunding operations as the recent issue of 5 per cents by Swift & Co., to take up 7 per cents put out in August, 1921. The 7s were sold at 97½ and the 5s at 97, showing a drop of nearly a clear two per cent in one year.

Rates upon real estate mortgage loans have been declining along with those upon listed bonds, and now are commonly ranging at 5½ to 6 per cent, both upon city property and farms. Insurance companies, who have been large buyers of bonds ever since the war, are increasing their activities in the farm mortgage field.

Interest rates are not back to the pre-war level, and are not likely to be for some years to come. The world is too far behind with construction work for that. But before the war 4½ per cent was a common rate on general refunding mortgage bonds of good railroads.

With the present business outlook, it is reasonable to conclude that the absorption of securities by banks is about at an end, and if there should be much of an increase in the demand for bank loans the bonds held by the banks will begin to come back on the market. That is a factor to be reckoned with, and the recent weakness in Liberty issues, which have been favorites with bankers, indicates that the movement already has commenced.

The Treasury has a considerable amount of refinancing to do in the next six months, and is likely to bring most of it along soon, but

as it will release as much credit as it calls for it will have but temporary influence upon the market.

Is Inflation in Sight

There is considerable discussion and difference of opinion as to whether another period of credit inflation and rising prices is under way or in sight. The prices of many commodities are tending upward, wage advances signify higher industrial costs and the volume of bank loans is now increasing. These signs may indicate nothing more than recovery from depressed conditions, but when such developments run far enough they are symptoms of inflation. What is the difference between legitimate and wholesome expansion and the unhealthful state which is called inflation?

It is a familiar fact that the course of business, instead of running evenly and steadily, year after year, tends to run in cycles, with greater confidence and activity in some years than in others. The actual difference in the volume of production between good years and bad is not so much as might be thought, but the fluctuations are sufficient to cause an important amount of unemployment in the bad years, and to seriously affect prices and profits. During a period of falling prices and depression, consumers economize and postpone expenditures, dealers hold off from purchases, so that the amount of buying falls below normal, that is, below the average amount required to supply their wants one year with another. While this situation exists an accumulation of wants is being made, which when released later on tends to raise demands above what would be a normal average, thus creating the conditions for another reaction.

During the period of depression, when buyers are holding off to see how low prices will go, prices usually go below the normal and remunerative level, particularly if supplies were large when the down turn began. A period of depression is a period of liquidation, both of goods and of loans; when revival begins the public has need to do an unusual amount of buying, banks have large capacity for loan expansion and interest rates are low. The exhaustion of old stocks, with easy money, thus prepare the way for revival. Wages, also undergo some reduction, or, at least, labor costs are reduced by increased efficiency and choice of the best workers.

While prices are falling, all influences combine to carry them lower: buyers hold off, creditors press the weaker debtors for payment, industry slackens and the loss of employment curtails consumption. On the other hand, when conditions begin to mend, all influences tend to help the situation. Rising prices stimulate buying, industry quickens and as the wage rolls swell, consumption increases. This development, together with the rise of wages, prices and interest and the increase of bank loans that naturally go with it, is legitimate, wholesome expansion.

When Inflation Begins

When confidence is completely regained and belief in a lengthy period of prosperity is established, the sanguine, speculative spirit develops. It is stimulated by the deficit in many kinds of goods and constructional work that accumulated during the depression. Consumption having been *below* normal for a time, the demand now rises *above* normal, and stimulates the industries to the limit of their capacity. It does not stop there, but tries to drive them beyond their capacity. Various phenomena develop now: dealers double their orders, expecting them to be scaled down, or duplicate them with different producers; manufacturers build and equip new factories to enable them to take care of the business that seems to be in sight, and raise wages to attract labor from competitors or from other industries; advancing costs make it necessary to use more bank credit.

By this time the situation is becoming abnormal. The demand for nearly everything is above the supply, and above the normal or average demand, to which in the long run prices are surely adjusted. It is stimulated largely by speculative anticipations and by competitive buying, supported by credit.

The banks respond to the appeals of their customers, who say they want credit for legitimate needs in production and trade, but if production already has reached the capacity of the industries, additional credit simply finances competition for labor and materials, and drives wages and prices higher and higher. This is inflation: the use of credit as purchasing power in excess of the productive capacity of the industries. It does not increase production; it simply raises wages and prices until the bubble collapses.

The Present Situation

If comparison is made with the situation before the war, conditions are now inflated, but this is not chargeable to the slight expansion which has taken place in the last few weeks. As compared with the standard of value, wages and the general price level are high, although all prices are not above the pre-war level.

The present discussion, however, is not about the relation of credit and prices to the pre-war level, but their tendencies at present and in the near future. Prices have had a very considerable fall from the top, and a slight recovery from that fall, but this gain cannot be called secondary inflation. It looks

like the recovery that always comes when the old stocks are exhausted and industry gets fairly under way again. The fall of prices was uneven and in some cases too precipitate, and the curtailment of industry was too great to permit of supplying the necessary demands.

Although the war-time was anything but a period of depression, some of the effects were similar to those resulting from a period of depression. Industry in some lines fell behind the normal growth of the country, creating a deficit of supply, or accumulation of demand. This is true in housebuilding, in the construction of railway equipment, and in some other lines, and a revival has occurred in those lines. It is due to imperative needs, rather than to a belief that the bottom has been finally reached in construction costs, although the feeling doubtless prevails that prices are not likely to go lower until the existing shortage is in large part made up. The advance of wages is due in part to the revival of industry, but in large part to the immigration act.

It is quite evident that abnormal conditions in some of the industries are directly influencing prices at this time. The rise of iron and steel is mainly due to the coal strike, which has affected all industrial costs.

There is nothing about the attitude of buyers of general merchandise that indicates a desire to anticipate future wants. They are buying cautiously, for immediate needs only, and fighting advances, which is just the opposite of the common attitude when inflation is under way. Buyers, at least, are not contributing to inflation.

The increase in the demand for credit has been chiefly to carry stocks and securities. The list as a whole was very low a year ago, and with the decline of interest rates many of them could be carried at a profit on the basis of their earnings, and those which represent properties constructed before the war show very high intrinsic values as compared with the cost of constructing similar properties at present prices of labor and materials. The rise of stocks and bonds signifies that capital is accumulating, and also that there is faith in the country's stability and progress, despite depressing world conditions.

Conditions Favorable to Inflation

But even though inflation is not yet manifest, do not indications forecast it, and are not conditions so favorable to it as to make it almost inevitable? That is the question in the minds of many careful observers.

It is true that conditions are very favorable to an inflation of credit. All the machinery and equipment necessary for the manufacture of a great supply of credit are at hand. We have a great number of independent banking institutions, actively competing with each other for customers, and the most effective way that ever has been found for winning customers is by liberality in granting credit. These banks, as we have shown above, have liquidated a great amount of credit in the last two years, and while they have shifted a large part of it into securities, they will be glad to sell the securities as fast as the market will take them, if they can employ the funds in the service of their banking customers and to bring new customers.

Furthermore, the Federal Reserve banks are now liquidated down to very small holdings, with their gold reserves at the highest point in their history, and have the capacity to grant more credit than ever before. And, finally, gold is steadily flowing to this country from the new production of the world, and will continue to do so as long as exchange rates are in our favor as now.

These are the conditions that make for easy money, and we have never yet had easy money in this country that inflation did not come out of it. There is no such central control over bank credit in this country as in countries where the banking business is handled by a comparatively few corporations operating numerous branches. The Federal Reserve banks have no control over the member banks until the latter begin to re-discount, and then only by means of the discount rate, and popular pressure is always strong for a low rate.

There seems to be nothing in sight to save us from inflation, but an indisposition of the public to borrow. The mere presence of ample gold reserves in the vaults of the Federal Reserve banks will not cause inflation. It only serves as the possible basis. Somebody must borrow the available credit, and use it in buying things to such an extent as will produce the conditions that characterize inflation.

Those who say that inflation is imminent, bank upon the belief that the American people never have permitted such an opportunity to go long unutilized, and that it is not possible with their optimistic mentality for them to do so.

Reasons for Caution

One reason for doubting that the country will swing readily into another inflationary jamboree is that so little time has elapsed since the last one. Wounds are still fresh, memories are vivid, and, moreover, there are many people with whom recuperation has not proceeded so far as to enable them to play an aggressive part in a new movement. History repeats itself in matters of this kind, but usually with intervals which provide a considerable group of new actors. There would seem to be reason to believe that most of the business men who passed through the experiences of 1920 and 1921 will want to make a very care-

ful study of probabilities before they commit themselves to extensive obligations on a level of prices much above the present one. It is one thing to go along doing business within close range of your own capital, able to liquidate rapidly, but that policy does not make for inflation. It takes great borrowing to make inflation.

As an answer to the argument that the importations of gold make for inflation, it is to be said that it would be most unwise to build a great fabric of credit on a temporary foundation. If this influx of gold should put prices up, by the same logic a efflux of it would put them down. Nothing can be more certain, than that the present situation, in which gold came to the United States last month from 31 countries, is abnormal and cannot be permanent. Like every other excess it will have to be corrected later. If the world ever is to get back to normal trade conditions there must be a redistribution of this gold, to enable currencies and exchanges to be stabilized. If, then, it is necessary to the establishment of permanent prosperity that we shall give up some of this gold, what is to be said of the policy of using it forthwith as the basis of credit? It may be that the speedy way to bring about the redistribution is to have an inflation of credit and prices, thus curtailing our exports and increasing our imports, but who wants to personally share in creating the indebtedness that this will require? Our imports this year have been increasing and our exports diminishing, and there is no upward tendency of wages and prices abroad corresponding to that which has started here.

Prices Over the Long Run

It is affirmed very positively in some quarters that the pre-war price-level is gone forever, and it may be readily agreed that there is no prospect of an early return to it. The fluctuating prices that we have had since the war, however, have been the product of abnormal conditions, while the price-level of pre-war times was the natural result of the free-play of all economic forces over a prolonged period, and nothing is more certain than that, given similar conditions permanently, economic laws will tend to repeat similar results. The mills of the gods grind slowly, but they make a tolerably sure job of it.

The fact that some of the chief factors in the present revival are traceable to the war, as the great activity in the building trades, should inspire caution about assuming that present prices, particularly in those lines, are permanent. The building shortage presumably will be made up eventually, and when it is rents will come down. It is even possible that the price of mining coal may not always be as high as it is, and coal and transportation costs are leading factors in the present price level.

Wages and Prices After the Civil War

One reason given for holding that the old price-level never will return is that labor has become highly organized and never will consent to lower its standard of living. It is also pointed out that wages were not reduced to the pre-war level after the Civil War. It is pertinent to say as to the last argument, that prices were reduced. Wages depend at last upon production, and if production can be increased in the coming years as it was after the Civil War, so that goods are cheapened, consumption increased, and the demand for labor thus increased, not only will there be no occasion to reduce wages, but it would be impossible to do so even if labor was unorganized.

Wages and the Living Standard

On the other hand, unless production is cheapened, the standard of living is not raised for the wage-earning class by pushing up wages, because the cost of living rises with them. It is perfectly futile—foolishly so—to look for any general improvement of social conditions by merely raising wages in terms of money. To talk about it is nothing but a habit of mind.

There are no gains from raising money-wages, except as there are inequalities in the advances, some groups of workers getting their compensation raised at the expense of others. Such benefits are neither general nor permanent, for in the long run the economic law will find a way of equalizing conditions.

The State of Agriculture

Another reason for thinking that inflation is not likely to come at this time is that such a state of industry and trade activity must be general, including all the important industries. There must be reciprocity among the industries. They must exchange products upon the terms to which population in the several industries is adjusted, if employment is to be full and permanent. Agriculture is largely dependent upon foreign markets for an outlet for its products and foreign prices fix the prices even in this country for most of the important crops. It is impossible to raise the prices of these products by a mere expansion of credits at home. This means that the farmers are largely outside the scope of an inflationary movement, and non-participants in the benefits. They are within its scope, however, so far as their own purchases are concerned. Their purchasing power is curtailed by every advance of prices in the other industries. Thus they not only fail to benefit by the movement,

but they become a drag upon the movement, their purchases diminishing. Will there be buying power enough and confidence enough to carry inflation forward without the farming class? Can the country get into an exuberant state of prosperity with such a one-sided participation?

It is urged that the increased wage-payments will greatly increase consumption, but the increases are all added to what somebody must pay, and count just as much for the restriction of purchases as for increasing them.

A Sound Basis for Prosperity

If we accept the very substantial revival of business which has taken place this year as a natural recovery from an excessive curtailment of industry in 1921, and a natural result of progress made in restoring the equilibrium between the several branches of industry, by reductions in some quarters and advances in others; and if we endeavor in a spirit of harmony and co-operation to restore the equilibrium more completely, in order to obtain such a free and full interchange of goods and services that everybody shall be employed and production shall be to the limit of capacity, we may hope to have a better year in 1923 than in 1922. That is the method by which prosperity is achieved.

On the other hand, if the public generally becomes possessed of the idea that a boom is coming, and is willing to borrow and spend upon that belief, it is possible that a short course of inflation may be run. It is always necessary to take into account not only what conditions actually are, but what the majority of people think about them. In the long run, however, it remains true that only a balanced prosperity, which includes all classes and is based upon economical production and just and reciprocal relations can be permanent. Wage-advances that make the situation more one-sided than before will tend to choke off the distribution of products.

The Scarcity of Money in Germany

We gave some space last month to the phenomena of "tight money" in all the countries of Europe that are doing their best to keep up with the demand by running their presses night and day. An important exporting house has sent us the following copy of a letter received September 18th, from its representative located in Hamburg, which gives a graphic picture of the situation in Germany:

> I mentioned in my previous letters the growing money scarcity, noticeable in this country recently. If you send to the banks to cash a check or want to draw money on your letter of credit, you will only get a fraction of what you call for, say 10 or 20%. It reminds me of the money crisis in America in 1907, when the banks paid out limited sums only to applicants and there was not enough ready money to go round for wages and salaries. It seems, that the printers' strike some time ago, which lasted 12 days, is the cause, why the issue of bank notes did not keep pace with the demand for them, naturally greatly increased by the raised cost of commodities. Moreover, what money the banks pay out is mostly in 10,000 mark notes, which no one can get change for. At luncheon you can see people, all trying to pay for their meals with 10,000 mark notes, and a lot of financing is necessary to get square with the waiters. I suppose people are now hoarding paper marks as they used to hoard gold formerly, but it will all come out when the exchange becomes better.

The writer probably is in error in attributing the scarcity in any degree to hoarding. With the currency sinking in value constantly there is no object in hoarding it. The apparent scarcity is not because there is less of it in circulation but because the depreciation requires the use of so much more of it in making payments. That is shown by the resort to large denominations. A cable message to the New York Times, dated Berlin, September 24, says:

> Franz Urbig, director of the Disconto Gesellschaft Bank, has published a table to show that the currency crisis results from the fact that prices have risen much more rapidly than paper inflation has progressed and that hence the buying power of all notes in circulation has actually diminished. Urbig points out that, whereas 70,000,000,000 mark notes circulating in January, 1920, had then the same power as 5,400,000,000 gold marks before the war, the 337,000,000,000 circulating at the end of August had only the same purchasing power as 1,870,000,000 gold marks.

In short, the more they print the less it is worth and the faster it depreciates, the situation getting constantly worse, although—bear in mind—all of this money is full legal tender!

The scarcity of currency is only a symptom, the serious scarcity is of credit, and back of that of capital. The printing of more money or the inflation of bank credit is at last an attempt to get along without capital, to indefinitely have more than you can pay for in real value, to consume more than you are creating.

The depreciation of the money and rising prices make necessary the use of a great deal more credit. All business concerns find themselves obliged to borrow more money, but the very situation makes credit hard to get. Why should any one want to lend in terms of money, to be repaid in a few months or a year in money of possibly one-half the purchasing power of that in which the loan was made. The banking situation evidently is difficult. The Reichsbank, which is the reserve bank of Germany, has advanced its discount rate twice in recent weeks and it now stands at 8 per cent, which considering the amount it is necessary to borrow to buy anything is very high, but even this is a small earning rate, considering recent losses upon the principal with every turnover of funds. The banks are all in like position. In so far as loans are made from depositors' funds, this shrinkage is offset by

the fact that the deposits are payable in the same currency, but if mark loans to any extent represent capital the latter must suffer. The German bankers, however, are competent financiers, and doubtless have sums equal to their capital placed where they are not subject to the depreciation of the currency.

A Lesson to Critics of the Reserve System

The experience of Germany is a complete answer to the critics of the Federal Reserve system who have held that it might have kept money easy and prevented prices from falling, by lending money freely in the Fall of 1920. It is true that the deficit in German revenues and the reparation payments have increased the issues of German currency, and in that degree aggravated the situation, but the principle that additional issues of credit or of currency will depreciate the value of all outstanding issues, is just as true in the United States as in Germany. Once you adopt the policy of trying to make money "easy" by that method, there is no stopping without a crisis, and the more there is issued the worse the crisis will be.

Inflation by means of bank deposits and checks is no different in character from inflation by issues of currency and in the Fall of 1919 this country was already far advanced upon the same highway that Germany has traveled. We had passed the point where an increasing volume of bank credit increased production. It accomplished nothing but to finance a competitive struggle for labor and materials, which was rapidly carrying all the costs of production and distribution higher and higher. The industries were apparently helpless in a cycle of rising wages and prices, which got nobody anywhere and apparently had no end, just like the situation in Germany. Wages went up because the cost of living did, and the cost of living went up because wages did. To any one having knowledge of the history of financial crises, or any practical financial sense, it must have been evident that such a movement could not continue indefinitely.

A Crisis Inevitable

If it had been within the power of the Federal Reserve authorities to continue to grant credit as called for, and if they had possessed no better judgment than to do so, the United States would have followed down the same path pursued by Germany. There never could have been a chance to stop inflation after 1919 without a crisis and a fall of prices. Once a country is fully started upon a career of inflation, and a great volume of indebtedness created, there is no stopping it without a crisis, but the quicker it is stopped the better. If even a printers' strike checks the flow of new money in Germany, it causes a crisis. There is no way out of such a situation except through a crisis.

A great rise of prices that has been caused by inflation must be supported by more inflation, or it will collapse. The markets must keep on rising or they will go back, and when a great body of indebtedness has been created, upon margins which grow narrower the longer the rise continues, the decline, when it begins, is likely to precipitate.

In the long run, all excesses are offset by deficits, for the law of averages will prevail. If people buy more sugar in a given period than they consume in that period, they are likely for a time afterward to buy less than they consume, and if the excess buying influenced prices in one direction the deficit will influence them in the other direction. If they buy more town lots in one year than they need for building purposes in that year, they will buy less than they need in some other year. If credit expansion is rapid for a few years, up to the limit of bank reserves, and the use of this purchasing power puts up prices rapidly, prices will fall when credit expansion ceases. Once credit expansion ceases, the price situation inevitably deflates itself.

There is only one way to keep prices always rising, and that is by forever depreciating the value of the money. Russia and Austria are still a few laps ahead of Germany, but Germany has gone far enough to show all the world that inflation is an *ignis fatuus* that leads a nation deeper and deeper into the morass of industrial and social anarchy.

The Limit of the Reserve Act

The United States was not dependent upon the judgment of the Federal Reserve authorities as to when inflation must stop. The framers of the Federal Reserve Act did not leave this momentous question wholly to the executive officials of the system. It set a limit in the law beyond which inflation *must not go*. That limit was a reserve of 35 per cent against the deposits and of 40 per cent against the currency notes of the Reserve banks. That limit was practically reached before the authorities of the system took effective measures to stop the increase of loans. Inflation could not have been allowed to run farther without violating the law.

The restrictions of the law, framed upon sound principles before the outbreak of the war, saved the country from the extreme experience of inflation. The German law had a limit also, but it had been removed, as a war measure. If the critics of the Reserve system had been in control of the system with a free hand, this country would have followed the same course as Germany.

European Affairs

One month ago Europe's anxieties centered upon the relations between France and Germany. It seemed very probable that France was about to take the first steps in the seizure of important German territory as a means of compelling reparation payments, and grave apprehensions were felt as to what the results of such a movement would be in the future.

That situation was relieved by the action of Belgium, in agreeing to accept six months' German Treasury bills, "properly secured," in lieu of the remaining cash payments due this year. Inasmuch as all cash reparation payments this year go to Belgium, France was interested only that the schedule of payments should be fulfilled, and made no objection to the arrangement between Belgium and Germany. Although this makeshift does not give inspired confidence in the latter's ability to meet payments to France next year. In order to satisfy Belgium the German Reichsbank has effected arrangements with the Bank of England, by which the latter guarantees the Treasury bills. What pledges have been given are not known, but evidently London was disposed to bridge over the situation. No real settlement has been accomplished; only another postponement.

There is, however, reason to believe that with the lapse of time public opinion in France grows more conciliatory. It appears that M. Poincare was preparing to favor at the London meeting in August a reduction of the total German obligations to 50.000.000.000 gold marks, or approximatey $12,000,000,000, upon condition that concessions be made upon the French debt to Great Britain, but was prevented from making the offer by the Balfour note.

Meanwhile, the Wiesbaden plan, under which German contractors may participate in supplying materials for reconstruction work in the devastated districts suddenly promises to become operative on a large scale. Arrangements have been announced between Hugo Stinnes, the German industrial magnate, and a French Cooperative Society, organized by sufferers in the devastated districts and headed by the Marquis de Lubusac, for the delivery of building materials. This society consists of 130,000 members, who hold recognized claims for indemnity aggregating over 13.000,000,000 francs, or more than $1.000,000,000. Under the terms of the Wiesbaden plan the bills for contracts effected under it will be met by the German government, the payments going directly to the German contractors in German currency, the problem of gold payments or of converting German currency into French currency being avoided. Of course, if the plan is to be carried out upon sound financial principles the German government must meet these obligations by taxation, and not by simply printing more currency.

It will be an interesting development if the reparations problem is finally solved by the bargaining of business men after the statesmen have gone to the end of their resources.

The Turkish Alarm

Scarcely was excitement over reparations allayed, when the situation was thrown into confusion over the relations of the Allies with Turkey. The latter nation was banished from Europe by the terms of the peace treaty, except that it was allowed the hope of recovering Constantinople, subject to international control of the Straits. Smyrna and hinterland was given to the Greeks. The Sultan signed the treaty, but it was very unpopular with the Turks, and a resistance to it was organized under Mustapha Kemel. The Greeks having virtually broken the others by taking back Constantine as King, were left to fight it out with the Turks alone. The latter after suffering defeat last year, have succeeded in rallying and expelling the Greek armies from Asia. Now they have invaded the neutral zone on the Asiatic side of the Straits and are demanding the restoration of Thrace, their former territory on the European side. The situation at first was very much strained by the fact that France and Italy apparently sided with Turkey, while Great Britain warned the Turks that they must not enter the neutral zone or cross the Straits. Finally, however, Great Britain yielded to her allies and joined in a proposal to restore Thrace to Turkey, provided the Straits were internationalized.

The situation is rendered less critical by the fact that the Allies now seem to be in accord upon the main aim to be achieved, to-wit, international control of the Straits, but there is still grave danger of a clash between the British and Turks in the neutral zone. The Soviet government of Russia expresses sympathy with Turkey, but Russia has a greater stake into the freedom of the Straits than any other country. Moreover, there is little reason for thinking that Russia desires to get into a war. All of the Balkan countries are interested in the freedom of the Straits, and Mustopha Kemel announces his willingness to concede this, but there is some difficulty about giving satisfactory guarantees with the Turks established on both sides of the narrow passage way.

The situation is further complicated by the fact that the Greeks have now deposed Constantine, in order to restore relations with the Allies, and have announced their purpose to defend Thrace. The situation is a disquieting one, but it would seem that the Allies have

too much in common to allow themselves to be divided over the question of how the freedom of the Straits shall be assured.

The New Customs Tariff

The methods of officially determining the valuation of the merchandise imported into the United States under the new tariff law are practically identical with those which prevailed prior to its enactment. The theory of our customs acts for many years has been that it shall conform to "the actual market value or wholesale price thereof at the time of exportation to the United States in the principal markets of the country whence exported." Hence the foreign invoice value was made the basis of the valuation. To guard against "dumping", or sales below foreign market values, the Emergency Tariff Act, which became a law in May, 1921, provided that in determining the valuation of the goods entering the United States both the export valuation and the value in the domestic markets of the country from which imported should be considered and the higher of the two prices accepted as the basis of the valuation of the merchandise when entering the United States. This double system of determining the values upon which duties may be levied is carried into the new law, which says "for the purposes of this act the value of the imported merchandise shall be the foreign value or the export value whichever is higher." The act further provides that if neither the foreign value nor the export value can be ascertained to the satisfaction of the appraising officers "the United States value" of the article shall be the basis of the valuation, and if neither of these three methods is practicable then "the cost of production" may be determined as the basis of valuation. Inasmuch as the last-named basis would be the most difficult of all to ascertain, it is not likely to be resorted to often. In consigned shipments, the appraisements for duty purposes will in the opinion of the customs officials at New York be based upon the United States valuation of the articles in question, this United States valuation being the price at which such or similar imported merchandise is freely offered for sale in the principal markets of the United States at the date of exportation of the imported merchandise in question.

The President's Authority

In addition to the above general methods of valuation, which are similar to those prevailing for many years, the act empowers the President to increase the rates of duty in cases in which he deems that the rates provided by the law are insufficient to "equalize the cost of production in the United States and the principal competing country," said increases not to exceed 50 per cent of the rates established in the act.

The provision does not end here, for in any cases in which the President finds that such advance in duty as authorized by the act is insufficient to equalize the duty in cost of production in the United States and the principal competing country, he is required to make public his findings to this effect and thereafter the valuation of the imported merchandise of this character shall be based solely upon the American selling price of any similar competitive article manufactured or produced in the United States.

This "American selling price" is to be the price (including containers and other costs of packing) at which such article is freely offered for sale to all purchasers in the United States in the ordinary course of trade and in the usual wholesale quantities, or the price that the manufacturer, producer or owner would have received for the domestic article at the time of the exportation from the foreign country of the imported article in question.

In determining the difference in the cost of production at home and abroad, the President is required to take into consideration not only the differences in wages and cost of material, but also "any advantages granted to a foreign purchaser by a foreign government or by business partnerships and associations in foreign countries." In case the difference in cost of production at home and abroad subsequently disappears, the President shall modify or terminate the increases which had been already made.

Unfair methods of competition or unfair methods of importation, the effect of which is to destroy or injure an industry efficiently and economically operated in the United States, are declared unlawful; whenever such unfair methods are established to the satisfaction of the President, he may advance the rate of duty not to exceed 50 per cent; in extreme cases of unfair methods he may exclude the articles from entry, and in cases in which he has reason to believe that such unfair methods exist may temporarily suspend the importation of such articles pending a full investigation.

In all of these investigations as to the relative cost or selling price of the American domestic products and that of the article in the foreign country, or in those relating to unfair competition, the President is authorized to utilize the services of the Tariff Commission in investigating and determining the facts relative thereto.